

Message Text

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ACTION EA-09

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E.O. 11652: N/A

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SUBJECT: THAI-PRC RICE-OIL BARTER DEAL

REF: BANGKOK 17760

1. ON AUGUST 24, 1974, THE THAI GOVERNMENT TRIUMPHANTLY ANNOUNCED A MAJOR RICE-OIL BARTER DEAL WITH THE PEOPLE'S REPUBLIC OF CHINA-50 MILLION DOLLARS OF CHINESE CRUDE OIL FOR THAI RICE. THE OIL WAS REPORTEDLY BEING SOLD TO THE THAI BY THE CHINESE AT A "FRIENDSHIP PRICE" BELOW WORLD MARKET PRICES. THE BANGKOK POST ANNOUNCED ON SEPTEMBER 17, 1975, HOWEVER, LESS THAN FOUR WEEKS AFTER THE OIL DEAL, THAT ON SEPTEMBER 16 THE THAI CABINET HAD FORBIDDEN ANY FURTHER BARTER DEALS FOR CHINESE OIL. THE ACTION WAS TAKEN ON THE RECOMMENDATION OF THE CHAIRMAN OF THE THAI NATIONAL OIL COMMITTEE, MAJOR-GENERAL PRAMAN ADIREKSAN. (THERE WAS SOME AMBIGUITY IN THE DECISION FOR ONE REPORT STATED THAT SUCH TRANSACTIONS MIGHT ON OCCASION BE ALLOWED IF THEY HAD RECEIVED PRIOR CLEARANCE FROM THE NATIONAL OIL COMMITTEE.)

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2. GENERAL PRAMAN REPORTEDLY INFORMED THE THAI CABINET THAT

THE CHINESE HIGH-SPEED DIESAL AND CRUDE OIL WHICH THAILAND BOUGHT FROM CHINA IN EARLY 1974 AT "FRIENDSHIP PRICES" HAD TURNED OUT TO BE HIGH IN WAX CONTENT AND PRESENTED THE THAI WITH MAJOR DIFFICULTIES IN ITS REFINING AND PROCESSING. THE BANGKOK POST DETAILED SOME OF THE DIFFICULTIES. BECAUSE OF THE HIGH WAX CONTENT, WHICH CAUSES THE OIL TO CONGEAL AT LOWER TEMPERATURES, THE OIL WILL NOT FLOW FREELY THROUGH PRESENT PIPE-LINES WHICH ARE LAID UNDERWATER BETWEEN TANKER UNLOADING SITES AND THAI REFINERIES. FURTHER, THE CHINESE CRUDE PROVIDES A HIGH PROPORTION OF HEAVY OILS (SUCH AS FUEL OIL) WHICH ARE NOT IN GREAT DEMAND IN THAILAND AND A MINIMUM OF LIGHTER DISTILLATES SUCH AS GASOLINE AND KEROSENE WHICH ARE THE MAJOR PORTION OF THAI PETROLEUM NEEDS. NEWS SOURCES SUGGESTED THE POSSIBILITY OF RE-DIRECTING THE CHINA CRUDE DESTINED FOR THAILAND TO OTHER COUNTRIES SUCH AS JAPAN WHICH NEED THE HEAVIER DISTILLATES IN EXCHANGE FOR LIGHTER CRUDE FROM OTHER SUPPLIERS.

3. COMMENT: IF THE TECHNICAL AND MARKETING PROBLEMS CITED ABOVE ARE THE ACTUAL REASON FOR THE THAI CABINET DECISION, THE THAI WERE SLOW TO LEARN THEIR LESSON, FOR THE ACTION WAS ONLY TAKEN AFTER A SECOND MAJOR PURCHASE OF CHINESE CRUDE OIL. GIVEN THE ANXIETY OF VARIOUS THAI GOVERNMENT FIGURES TO LET INVOLVED IN DEVELOPING THAI RELATIONS WITH THE PRC, HOWEVER, IT SEEMS QUITE POSSIBLE THAT IN ARRANGING THE AUGUST OIL-RICE BARTER DEAL DURING HIS VISIT TO PEKING, COMMERCE MINISTER THONGYOT CHITTAWIRA MAY NOT HAVE BEEN AWARE OF THE TECHNICAL PROBLEMS FOR THE THAI INHERENT IN CHINESE OIL AND HE MAY NOT HAVE COORDINATED THE PURCHASE WITH THE NATIONAL OIL COMMITTEE BEFORE HIS DEPARTURE FOR CHINA. THE PRESENT DECISION MAY VERY WELL, THEREFORE, BE A STRAIGHT-FORWARD EFFORT BY THE THAI TO ALLOW THE NATIONAL OIL COMMITTEE TO KEEP THAI OIL IMPORTS IN AN EFFECTIVE TECHNICAL BALANCE.

4. AT THE SAME TIME, OTHER CRITICISM OF THE OIL DEAL HAS DEVELOPED IN RELATION TO ITS PRICE. ONE LOCAL ECONOMIC COMMENTATOR "PRICED OUT" THE VOLUME OF THE OIL AGAINST CURRENT RICE PRICES AND FOUND THAT THE CHINESE "FRIENDSHIP PRICE" ACTUALLY AMOUNTED TO ABOUT FIFTEEN DOLLARS A BARREL, WHICH AS HE WROTE IN THE BANGKOK POST, "IS NOT SO DIFFERENT FROM WORLD PRICES, RECALLING THE PURCHASE IS A MIXTURE OF CRUDE AND DIESEL." BUT WHATEVER THE PUBLIC OR LIMITED OFFICIAL USE

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PRIVATE MOTIVES FOR THIS LATEST RE-DIRECTION OF THAI DEALINGS WITH CHINA, IT APPEARS CLEAR THAT CHINESE OIL WILL PLAY A MUCH SMALLER ROLE IN THE DEVELOPING RELATIONS BETWEEN THE TWO COUNTRIES THAN HAD BEEN ANTICIPATED. WE DO NOT, HOWEVER, ANTICIPATE THIS EVENT WILL HAVE ANY VERY SIGNIFICANT EFFECT ON THE OVERALL FORWARD THRUST OF EXPANDING THAI-CHINESE RELATIONS.
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